

**Joint Legislative Audit and Review Commission
of the Virginia General Assembly**



**VRS Oversight:
2001 Semi-Annual Investment Report**

**JLARC Staff Briefing
December 10, 2001**

VRS Oversight Act

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- **Section 30-78 *et seq.* of the *Code of Virginia* requires JLARC to oversee and evaluate VRS on a continuing basis**
- **Areas for review and evaluation include:**
 - **Structure and governance**
 - **Actuarial policy and actuarial soundness**
 - **Administration and management**
 - **Investment practices, policies, and performance**
 - **Semi-annual investment report required**

Semi-Annual Investment Report

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- The market value of the fund's assets as of September 30, 2001, was \$34.3 billion
- The past year has been volatile for the equity markets, and VRS' one-year return, at -26.7 percent, is a reflection of market conditions; it still outperformed the benchmark of -27.9 percent
- In addition, the total fund's 5.8 percent three-year and 9.0 percent five-year investment returns outperformed the benchmarks for those periods
 - The total fund investment return for the 10-year period ending September 30, 2001, was 10.0 percent

Semi-Annual Investment Report

(continued)

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- **While total returns for the one-year period ending September 30, 2001 were negative, fixed income and real estate continued to provide positive returns:**
 - **Fixed Income 13.2 percent**
 - **Real Estate 11.0 percent**

- **The worst performance was in non-U.S. equity, at -31.5 percent for the one-year period ending September 30, 2001**

Rebalancing Policy

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- **The Board of Trustees approved a change in the rebalancing policy:**
 - **In response to the large change in asset values after September 11:**
 - **VRS staff asked for and received the ability to rebalance the portfolio prior to month's end**
 - **In addition, the benchmark was rebalanced**
 - **After several months of analysis, a new policy was developed to move from a monthly rebalancing to a two percent target rebalance policy:**
 - **VRS staff expect that they will have to rebalance 2 or 3 times per year instead of 12 times per year**
 - **Strategic rebalancing should save time and transaction costs**